



THE CITY OF SAN DIEGO
MANAGER'S REPORT

DATE: September 3, 2004 REPORT NO. 04-201

ATTENTION: Rules, Finance and Intergovernmental Relations Committee

SUBJECT: City/San Diego Data Processing Corporation Project Team Update

REFERENCE: (1) City Manager's Report No. 04-108
(2) Rules, Finance and Intergovernmental Relations Committee Action Item-2B from its May 19, 2004 meeting

SUMMARY

THIS IS AN INFORMATION ITEM ONLY. NO ACTION IS REQUIRED ON THE PART OF THE RULES, FINANCE AND INTERGOVERNMENTAL RELATIONS COMMITTEE OR CITY COUNCIL.

BACKGROUND

During the presentation of City Manager's Report No. 04-108 regarding the San Diego Data Processing Corporation (SDDPC), the Rules, Finance and Intergovernmental Relations Committee (Rules Committee) approved the following action at its meeting of May 19, 2004:

1. Direct the City Manager to establish a Project Team to take full advantage of the expertise and knowledge of the City and SDDPC staff. This Project Team will include the City Manager's Office, the City Attorney, SDDPC's General Counsel and specialized outside counsel, and senior SDDPC staff.
2. This Project Team should define the problems and potential solutions, including identifying the necessary consultants and framing the Scope of Work for any objective analysis, and identifying cost savings that could be implemented immediately. This Project Team should provide an unbiased and objective review of all strategic options for Information Technology (IT) sourcing for the City's short and long-term IT needs.
3. The Project Team should focus on the four questions posed by the Mayor and be charged with returning comprehensive answers to those questions: What organizational structure

will save the taxpayers the most money? What organizational structure will provide the best information technology service? What organizational structure will best prevent future abuse? What are the existing legal obligations and rights of both the City and SDDPC?

4. The City Manager will provide a progress report to the Rules Committee in 90 days and the final Project Team Report will be due back at the Rules Committee in 180 days.

This memorandum provides the 90 day progress report as required above. The key deliverable at the end of the 180 day period is a preliminary recommendation of where IT services should be sourced and a scope of work for a consultant to develop sourcing options for IT services that the Project Team believes should not be provided within the City. Thereafter, a consultant will conduct an objective analysis to determine whether those services should be provided by the City, SDDPC, competitively sourced to a third party provider, or some variation as determined and recommended by the Project Team's efforts.

Because of the anxiety and uncertainty among SDDPC employees concerning their jobs as well as the concern among City departments regarding reliable IT service delivery, it is important to clarify *that a recommendation of whether or not to pursue dissolution of SDDPC is not being made at this stage*. Only after the consultant's objective analysis of performance, cost and other "due diligence" considerations such as legal, personnel, and benefit plans have been fully analyzed will a recommendation about the right model for IT service delivery be made.

Though it is premature to estimate the time frame for any changes, it is essential to understand that a careful, thoughtful "change management" process is and will be a necessary component of any preliminary and final recommendations from the Project Team. This will help ensure that mission-critical services to the City are not disrupted due to loss of key personnel or key service providers. The Project Team is acutely aware of and sensitive to the fact that management of this part of the Team's effort is as important as the final outcome. The Team is working with the SDDPC Board of Directors to ensure communication and coordination occur, where appropriate. Part of the goal of this status report is to dispel concerns that have arisen at SDDPC and in the City of any imminent dissolution of the Corporation.

DISCUSSION

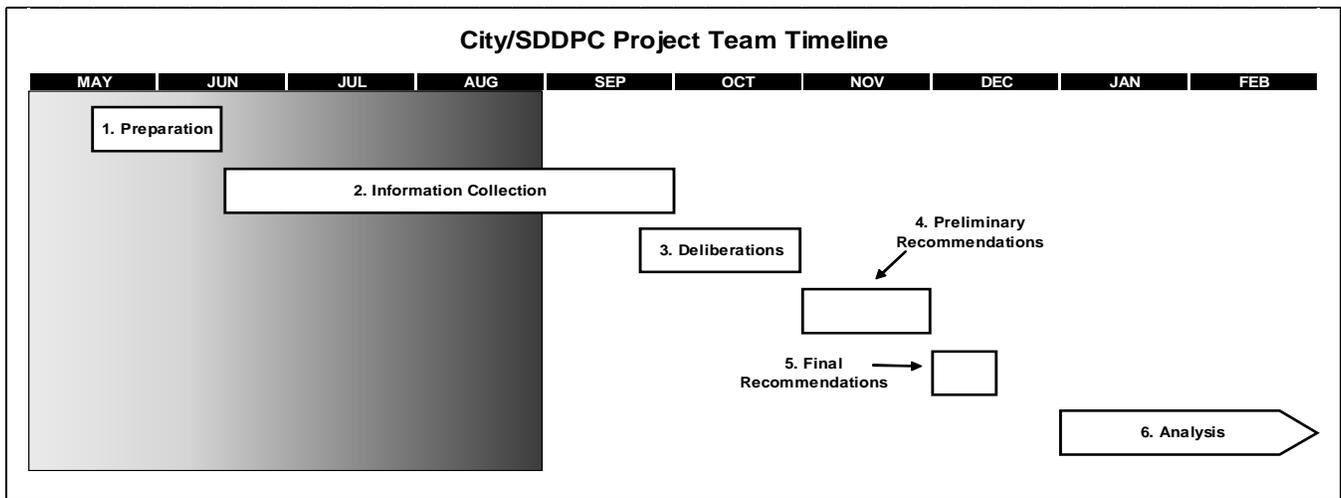
Immediate Savings

During the course of the FY2005 budgeting process, the City negotiated with SDDPC to deliver approximately \$6 million in cost reductions. In June 2004, SDDPC conducted an in-depth review of its cost structure and identified an additional \$4 million dollars in cost reductions for a total of \$10 million dollars savings. Rather than return a surplus to the City at the end of the fiscal year, the City Manager approved reductions to FY2005 IT service rates in proportion to the impact of the expenditure reduction, which will benefit any department that makes use of the service.

As part of its effort, the City/SDDPC Project Team will continue to look for opportunities to identify changes that can result in immediate savings, consistent with the goal of doing “what’s in the City’s short and long-term best interests.”

City/SDDPC Project Team Effort

Following is an overall timeline for the effort, followed by a description of each phase.



Phase	Name	Goals/Activities	Timeframe	Status
One	Preparation	Set Project Team goals, scope of work, operational guidelines, composition, timeframe; develop resources, key questions, presentation goals, structure and format; select Project Team members	4 weeks, ending JUN 18 th	Completed
Two	Information Collection	Convene full Project Team, conduct background briefings; determine key stakeholders to make presentations, collect information from stakeholders, users of services, City, SDDPC, experts, etc.	15 weeks, ending SEP 30 th	In progress
Three	Deliberations	Conduct preliminary deliberations for options, models, issues for sourcing IT services; identify analyst/consultant needs; prepare request for proposal for consultant to conduct analysis	5 weeks, ending OCT 29 th	Projected start SEP 20 th
Four	Preliminary Recommendations	Develop preliminary recommendations to be tested by users and key stakeholders; determine preliminary due diligence issues	4 weeks, ending NOV 26 th	Projected start NOV 1 st
Five	Final Recommendations	Develop final recommendations, due diligence issues and finalize scope of work for analysis	2 weeks, ending DEC 17 th	Projected start NOV 29 th

Phase	Name	Goals/Activities	Timeframe	Status
Six	Analysis	Select consultant and conduct analysis of recommended sourcing model	To be determined	Projected start January 2005

Accomplishments

The Project Team is working collaboratively and cooperatively toward determining the scope of work for the subsequent objective analysis that will result in an IT sourcing strategy in the City's best interest. Phase One and the initial weeks of Phase Two were devoted to establishing Project Team goals, operating guidelines, and Team composition, as well as establishing a common understanding of IT service delivery concepts.

The team members were selected on the basis of several criteria, including representation of departments with front-end operational as well as "back-office" applications; average consumers of IT services as well as the heavy consumers; ability to be open to wherever the project goes as well as the ability to assist with organizational change. Also, a professional facilitator, Steve Alexander, was engaged to assist the team through the process. The Project Team members are:

Name	Organization
Rey Arellano	Deputy City Manager & CIO (co-convener)
Laura Atkinson	SDDPC Customer Services Director
Lisa Briggs	San Diego County Taxpayers Association
Don Del Rio	SDDPC Corporate Counsel (co-convener)
Melanie Doyle	Organization Effectiveness Program
Paul Edmonson	Deputy City Attorney
Bob Ferrier	Metro Wastewater Department
Conny Jamison	SDDPC Board of Directors Chairperson
Tracy Jarman	Fire-Rescue Department
Rick Knode	SDDPC Communication & Computing Infrastructure Director
Darlene Morrow-Truver	Auditor & Comptroller Department
Joyce Russell	SDDPC Chief Financial Officer
Howard Stapleton	IT & Communications Department
Ron Villa	Financial Management Department

At this point and critical to the final outcome, the Project Team is balancing the need for a thorough process of gathering information from various stakeholders who have an investment in the outcome against the need to complete their work in a timely manner. Through the use of a clear set of presentation and operating guidelines, the Project Team is developing a shared understanding of the complex issues regarding the delivery to and the utilization of IT services within the City.

The table below shows the groups that the Project Team has received presentations or written input from, as well as the remaining groups we anticipate hearing from.

Input Received	Future Presentations
Environmental Services Fire-Rescue General Services IS Analysts Metropolitan Wastewater Neighborhood Code Compliance Park & Recreation Police Risk Management San Diego Regional Chamber of Commerce SDDPC Employees Committee Water	Auditor & Comptroller Automated Regional Justice Information System Development Services Library Members of the public Municipal Employees Association (representing IS Technicians) Public Utilities Advisory Commission Retirement Treasurer

Some of the main themes coming from the stakeholders are listed below:

- Accountability in the delivery of services
- Flexibility in the delivery of IT services
- Leverage what's working within the City
- Identification of key obstacles/challenges/resistance to change
- Introduction of more competition
- Better communications with the IT service provider and within the City
- IT services aligned with business objectives
- IT staff with business knowledge
- Equitable level of service across all departments
- City management support for change
- Sharing of best practices and lessons learned

As addressed earlier in this memo, various departments expressed their concerns over SDDPC employee attrition to the Project Team. This issue is being addressed by the SDDPC Board of Directors, who has asked their senior staff to propose retention incentives for critical employees. It is essential in the short and intermediate term to ensure that mission-critical services to the City are not disrupted by perceived or speculated changes. This memorandum highlights the understanding that the timeframe and assumptions about a new model is not imminent and maintaining mission-critical services to the City is a core objective of this process.

In the coming months, the Project Team will finish stakeholder input, and then begin preliminary discussion about where IT services should be sourced. The Team will create a preliminary sourcing model by categorizing IT services as (1) “should be done by the City,” (2) “should not be done by the City,” or (3) “it’s unclear whether or not it should be done by the City.” The latter two categories would then constitute the scope of work for which analysis should be done to determine who should provide the service. Where there are early areas of clarity and consensus, the team will look for ways to validate their decision and implement it.

The preliminary sourcing model will be presented to key stakeholders for feedback prior to finalization. Thereafter, preliminary due diligence issues will be identified as part of the consideration of that model. In addition, preparations will be made to issue a request for proposal for a consultant to conduct an objective analysis that will determine where best to source IT services in the best interest of the City.

Respectfully Submitted,

Approved,

Rey Arellano
Deputy City Manager & CIO

George I. Loveland
Assistant City Manager